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TREASURY FOR OIA CWINSHIP AND TTYANG  
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TAGS: [ECON](#) [EFIN](#) [EAGR](#) [PGOV](#) [SOCI](#) [CH](#)

SUBJECT: China's Qinghai Province Slow to Rebalance Economy and  
Address Rural Needs, Including those of Tibetans

REF: A. Beijing 649  
[1](#)B. Beijing 590  
[1](#)C. Beijing 693  
[1](#)D. 08 Beijing 3857

Classified By: Econ Minister-Counselor Rob Luke for Reasons 1.4  
(b) and (d)

[1](#)1. (C) SUMMARY: Tibetan and other minority communities in rural Qinghai Province see only limited benefits from China's rural development efforts. Like much of rural China, weak local government capacity hinders Chinese Government development efforts throughout rural Qinghai. These problems are exacerbated by remoteness and poor infrastructure. The Provincial government is devoting resources made available by China's economic stimulus package for environmental and rural livelihood projects, but rebalancing the local economy toward one that nurtures small businesses and achieves broad-based rural development and poverty alleviation is a distant goal. Large enterprises, mostly dominated by Han-Chinese, will continue to see the lion's share of benefits from recent stimulus package measures and ongoing economic development efforts. END SUMMARY.

[1](#)2. (SBU) During an April 12-16 Virtual Presence Post trip to Qinghai, Econoff, ESTHOff and ConOff met with officials from the Qinghai Province Development and Reform Commission, Agriculture and Animal Husbandry Bureau, Poverty Alleviation and Development Bureau, and the Environmental Protection and Science and Technology Bureau, as well as professors from Qinghai University and student advisors from Qinghai universities to discuss visas. EmbOffs also visited Ta'er (Kumbum) Monastery near Xining and sites on the shores of Qinghai Lake.

Responding to the Economic Slowdown in Qinghai  
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[1](#)3. (SBU) Hu Wenjuan, Division Chief, Rural Economy Division, Qinghai Development and Reform Commission said the impact of the global financial crisis on Qinghai has been limited because the province has very few international exports and is a resource-based economy supplying raw materials to the rest of China. GDP growth in 2008 was an acceptable 12 percent. There are some indications of slower growth in early 2009, such as lower fiscal revenues, and large industries (mostly producing commodities) have seen business slow somewhat, but Hu claims the economy is already responding to government stimulus measures.

[1](#)4. (SBU) As one of China's poorest provinces, according to Hu, Qinghai is following the Central Government's lead in trying to use stimulus package funds to focus on "livelihood" issues like housing, healthcare, education, rural poverty, developing agriculture and animal husbandry, and the environment. Despite

this emphasis, however, Hu said the Provincial Government is using investment to drive (ladong) the economy, and is supporting large enterprises and industry, since industry comprises 50 percent of provincial GDP and supports (zhicheng) the local economy. Li Shengcai, Director of the Qinghai Budget Bureau Forecasting Division, said Qinghai has the lowest per capita and overall fiscal revenue in China, and therefore relies heavily on the Central Government for budget support. Central government investment in roads, airports and railroads is important, although Qinghai also places priority on environmental protection. He added that infrastructure investment through the Great Western Development Plan has been important and that Qinghai hopes such Central Government support will continue (Ref A). (Note: According to recent media reports, fixed asset investment (FAI) in Qinghai increased 57.2 percent year-on-year in the first quarter of 2009, the highest percentage increase in seven years. Under the Central Government's stimulus package, in the first quarter of 2009 urban and township investment projects over 500,000 yuan (USD 71,000) increased 22.7 percent compared to the same period last year. End Note.)

15. (SBU) Hu said Qinghai received 30 billion RMB (USD 4.4 billion) in transfer payments in November and December of 2008 under the first phase of the fiscal stimulus package. This comprised 80 percent of Qinghai's budgetary spending in that period. (Note: In general, 80 percent of Qinghai's budget consists of Central Government transfers and 20 percent comes from local revenue. End Note.) The second phase consists of over 20 billion RMB from the Central Government. Some budget execution during the second phase was delayed during the winter, but the entire amount will be spent by June or July, according to Li.

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16. (SBU) Li said Qinghai is considering issuing local bonds to raise revenue to cover the Province's share of the stimulus package, but no decision had been made. He offered his personal opinion that local bonds were important because they would allow provinces like Qinghai with limited fiscal resources to increase income and therefore provide the increased matching funds required as the Central Government increased transfer payments. (Note: According to the World Bank's March 2009 China Quarterly Update, the pilot program to allow some local governments to officially issue debt will not help those local governments with the weakest financial positions, since the pilot is likely to involve more prosperous localities with stronger repayment capacity. End Note.) Hu explained that Qinghai is using tax preferences and subsidized loans to help local enterprises, but emphasized that Qinghai was not using any "buy local" (Ref B) or other local protectionist measures because it primarily exports raw materials to the rest of China. She said Qinghai had no ability to be protectionist and was therefore "forced to be open."

Rural Livelihoods: Claiming Success, but Admitting Challenges

17. (SBU) Discussing Qinghai generally, Hu said the Central Government has dramatically increased spending on rural infrastructure and improving agricultural and animal husbandry production in recent years, but the focus is now shifting to rural livelihood issues. Hu said the Central Government's expenditures on rural Qinghai are relatively high because of preferential policies toward Tibetan areas. She said counties in Tibetan areas do not need to match rural development funds from higher levels with their own funds. Hu also claimed that performance of local officials is being evaluated according to environmental, poverty alleviation, and other criteria, not just GDP growth.

18. (SBU) Ma Xiaofeng, Vice Director of Planning and Financing at the Qinghai Poverty Alleviation and Development Bureau, claimed Qinghai's poverty alleviation efforts had been successful overall. In addition to promoting business development and conducting vocational training, Ma explained that Qinghai's poverty alleviation efforts include relocation of residents from poor areas, with a goal of moving 2,000 households (approximately 10,000 individuals) per year. He said these programs aim to

decrease the number of herders in remote, difficult grassland environments and move them to better land farther north and east, but declined to elaborate further on how these programs are carried out and whether resettlement safeguards are in place. Ma also claimed that officials elicit direct input from local rural residents on the types of projects to be funded and on their implementation. (Comment: Although most officials in China are aware of policies requiring at least some degree of consultation from impacted residents, in practice this is rarely done and decisions end up being made by officials or in consultation with a few village elites. End Comment.)

¶9. (SBU) Ma admitted officials were struggling to meet the needs of the high percentage of impoverished residents in Qinghai (21 percent compared to a nationwide average of 4.6 percent). He also said they will have difficulty handling the larger numbers of rural residents who are now eligible for rural poverty alleviation benefits under recently instituted higher minimum income criteria. Reflecting nationwide concerns about maintaining rural income growth (Ref C), Hu said 2008 rural income growth in Qinghai was 14 percent, but is estimated to be only 7 to 9 percent in 2009. Hu said rural residents' income is derived from farming/animal husbandry, government transfers, and wages. She said only wage income has been affected by a weaker business environment due to the current economic slowdown, but claimed even this is limited because migrant labor is less common and comprises a small part of rural incomes.

¶10. (SBU) Officials from the Qinghai Bureau of Agriculture and Animal Husbandry said ongoing efforts to link rural residents to markets by developing cooperatives and "leading firms" (longtou qiye) have only recently begun and are progressing slowly (Ref C). Hu said the higher costs of implementing programs benefitting Tibetans and many other rural residents in remote areas makes it difficult to provide service levels equal to those received by rural residents in less remote areas of China. When asked about corruption and the lack of transparency as barriers to effective implementation of rural development projects, Li from the Finance Bureau said the Province requires local Government entities to carefully manage funds. Agriculture and Animal Husbandry Bureau officials recognized corruption as a problem but said they are increasing inspection and monitoring. They also said many central government funds are released directly to households, thus avoiding various levels of bureaucracy where funds can be siphoned

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off. (Comment: Premier Wen Jiabao and other officials have made recent appeals to address transparency and corruption issues in the implementation of the economic stimulus plan, but it is unclear how well they are being implemented in Qinghai or elsewhere. End Comment.)

Comment: Economic Colonialism, the Stimulus, and Tibetans  
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¶11. (SBU) China's efforts to maintain overall economic growth during the global crisis appear to be achieving success. Recent GDP and other data show the national economy may have bottomed out in the first quarter of 2009. But much stimulus package funding is going to the old stand-by's of infrastructure and construction, and increased bank lending is being channeled to state-owned enterprises and large companies rather than small and medium enterprises. Although Tibetans and other minorities in Qinghai may work in construction, in general they are less likely to own large businesses or otherwise benefit directly from Central Government economic stimulus funds.

¶12. (C) In many ways Qinghai uses a softer touch dealing with sensitive Tibetan issues than the Tibetan Autonomous Region, but Chinese Government economic development efforts still occur within the context of the Government's policies aimed at maintaining broader security and political control of areas with majority Tibetan populations. Policies focused on improving economic livelihoods of Tibetan and other minority populations, whether successful or not, have to be viewed as part of this overall effort to maintain stability and control.

